

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS

Airport Capital Funds

The Airport Capital Funds finance the Airport's capital expenditures and consist of the Airport Capital Improvement Fund, the Airport Renewal and Replacement Fund, the Airport Passenger Facility Charge Fund, and the Airport Revenue Bond Improvement Fund.

Airport Capital Funds

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 329,449	\$ 84,330	\$ (245,119)	(74.4%)
<i>Expenditure</i>	550,862	333,074	217,788	39.5%
<i>Fund Balance (est. *)</i>	624,036 *	402,268	(221,768)	(35.5%)

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The negative revenue variance of \$245.1 million was due mostly to the lower than budgeted use of financing for projects budgeted in the Airport Revenue Bond Improvement Fund. The Airport had budgeted \$253.8 million to fund Master Plan projects; however, no bonds were required this fiscal year. The Airport also had budgeted \$13.3 million in Bond Proceeds for the FMC Site Reuse Preparation project and only \$1.4 million was received this fiscal year.

Grant revenues of \$16.4 million came in below the budget of \$30.2 million. Grant revenues are received on a reimbursement basis and therefore, the shortfall of \$13.8 million was due mostly to lower than expected actual expenditures on grant-supported projects during 2006-2007. Projects which were not fully expended at year-end include Noise Attenuation Treatment, which experienced an isolated delay in the start of construction, the noise monitoring system upgrade and the purchase of a fire truck. These projects are anticipated to be completed in 2007-2008 and grant revenue will be received at that time.

<p align="center">2006 - 2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Airport Capital Funds (Cont'd.)

The expenditure variance was due to lower than budgeted project expenditures (\$217.8 million). The following is a list of the major unexpended projects (\$000's):

Terminal Area Improvement, Phase I	\$96,062
North Concourse Building	40,008
Terminal Area Improvement, Phase II	23,544
FMC Site Reuse Preparation	13,004
Noise Attenuation - Category IB	9,024
Taxiway Y Reconstruction	7,925
Public Parking Garage	7,318
Master Plan Misc. Precursor Projects	4,505
West Side Airfield Reconstruction	2,164
Central Plant Expansion	1,814
Consolidated Rental Car Facility	1,486
Utility Infrastructure	1,211
ARFF Facility Upgrade	834
Public Art	832
AVI System Replacement	788
Noise Monitoring Units	743
Principal and Interest Payments	689
Computerized Maintenance Management System	589
FIS 3 rd Floor Lounge Build-Out	512
Equipment, Operating	<u>509</u>
Total	\$ 213,561

The following is an explanation of major project variances:

- The Terminal Area Improvement, Phase I project variance (\$96.1 million) results primarily from timing of the establishment of the program's budget. A large portion of the funding for this program was budgeted in the first year based on a design-bid-build project delivery method. Subsequently, the Airport is using a design-build delivery method utilizing a task order-based contract. A large portion of the project's savings were rebudgeted as part of the 2007-2008 Adopted Budget. The remainder is recommended for rebudget as part of this report to continue this project's efforts in 2007-2008.

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Airport Capital Funds (Cont'd.)

- The North Concourse Building project variance (\$40.0 million) reflects the timing of the establishment of the project's budget. Funding for this project was programmed entirely in the first year, therefore funding will continue to be rebudgeted until the project's completion in August 2008.
- The Terminal Area Improvement, Phase II project variance (\$23.5 million) reflects the necessity to complete only the 30% design phase during 2006-2007. The majority of the project savings have been rebudgeted as part of the 2007-2008 Adopted Budget to continue these efforts.
- The FMC Site Reuse Preparation project variance (\$13.0 million) reflects the timing of the establishment of the project's budget. Funding for this project was entirely programmed in the first year, therefore funding will continue to be rebudgeted until the project's completion.
- The Noise Attenuation – Category IB project variance (\$9.0 million) resulted from an isolated delay in the start of construction during the year. This was due to a longer than anticipated delivery time for special windows required for historical homes. The majority of the project's balance was rebudgeted as part of the 2007-2008 Adopted Budget with the remainder recommended for rebudget as part of this report.
- The Taxiway Y Reconstruction project was completed in 2006-2007 and is now in the closeout phase. A portion of the variance (\$1.9 million) has been rebudgeted as part of the 2007-2008 Adopted Budget to complete final activities, with the remaining project savings falling to fund balance.
- The Public Parking Garage project variance (\$7.3 million) reflects a change in the design concept for public parking resulting in an expanded Rental Car Facility which includes 350 ground level public parking spaces. Funding has been rebudgeted to continue these efforts in 2007-2008.
- The Master Plan Miscellaneous Precursor Projects variance (\$4.5 million) reflects the timing of the establishment of the project's budget. Funding for this project was entirely programmed in the first year, therefore funding will continue to be rebudgeted until the project's completion.

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Airport Capital Funds (Cont'd.)

- The West Side Airfield Reconstruction project variance (\$2.2 million) is due to a change in project delivery methodology during the year. The project is currently postponed until staff evaluates alternatives.
- The Central Plant Expansion project variance (\$1.8 million) reflects the timing of the establishment of the project's budget. Funding for this project was entirely programmed in the first year, therefore funding will continue to be rebudgeted until the project's completion, which coincides with the North Concourse Building, and has an estimated end date in August 2008.
- The Consolidated Rental Car Facility project variance (\$1.5 million) reflects a change in the design concept resulting in an expanded Rental Car Facility. Funding has been rebudgeted as part of the 2007-2008 Adopted Budget to complete 100% of the design.
- The Utility Infrastructure project variance (\$1.2 million) reflects the timing of the establishment of the project's budget. Funding for this project was entirely programmed in the first year, therefore funding will continue to be rebudgeted until the project's completion, which coincides with the North Concourse Building, and has an estimated completion date of August 2008.
- The Airport Rescue and Fire Fighting (AARF) Facility Upgrade project is contingent upon receipt of grant funding. Rebudget of the variance (\$834,000) as part of the 2007-2008 Adopted Budget assumes this grant funding will be received in 2007-2008.
- The variance in Public Art (\$832,000) reflects alignment of public art design with the Terminal Area Improvement Program and North Concourse Building public art commissioning schedules. All funds will be rebudgeted to continue public art program efforts.
- The AVI System Replacement project variance (\$788,000) reflects a delay in the procurement process. All funds have been rebudgeted as part of the 2007-2008 Adopted Budget and an award of a contract is expected by the middle of 2007-2008.

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Airport Capital Funds (Cont'd.)

- The Noise Monitoring project consists of two components: replacement of the noise monitoring system and upgrades of remote monitoring sites with new Environmental Monitoring Units (EMU). The contract for the new monitoring noise system was awarded in December 2006; however, installation of the new system was not complete as of June 30, 2007. The variance (\$743,000) reflects funds rebudgeted as part of the 2007-2008 Adopted Budget for the procurement and installation of the new EMUs to be installed in various off-Airport sites once the installation of the new system is complete.
- The Principal and Interest Payments variance (\$689,000) reflects savings due to both lower than anticipated use of commercial paper and favorable interest rates obtained in 2006-2007.
- The Computerized Maintenance Management System variance (\$589,000) is the result of the delay of this project's bid and award. It was originally anticipated to occur prior to June 30, 2007, but is now scheduled for bid and award in 2007-2008.
- The FIS 3rd Floor Lounge Build-Out project was approved at as part of the 2006-2007 Mid-Year Budget Review. The project went out to bid during the fiscal year; however, the contract was not awarded prior to June 30, 2007. The variance (\$512,000) has been rebudgeted as part of the 2007-2008 Adopted Budget to complete the project in 2007-2008.
- The Equipment, Operating project variance (\$509,000) was due to the restructuring of priorities in the Airport's Technology Services area in 2006-2007. Funding has been rebudgeted as part of the 2007-2008 Adopted Budget in order to continue these work efforts in 2007-2008.

The remaining \$4.2 million variance involves a number of projects with less than \$500,000 in unexpended funds. The majority of the unexpended funds, excluding those that are savings, have been or will be recommended for rebudget for expenditure in the current fiscal year.

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Airport Capital Funds (Cont'd.)

The negative 2006-2007 ending fund balance variance of \$221.8 million represents a transfer from the Airport Fiscal Agent Fund that was not made. Since there was sufficient ending fund balance to cover anticipated needs in 2006-2007, the transfer for these bond proceeds was not made. It is expected, however, that the Airport will include this transfer into the Revenue Bond Improvement Fund as part of the 2007-2008 Mid-Year Budget Review. The Airport Department did experience project expenditure savings and portions of these savings are being recommended for rebudget to provide sufficient funding for projects in 2007-2008. The balance of the expenditure savings will remain unallocated as the Airport continues to review its capital project priorities.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Branch Library Bond Projects Fund

In November 2000, San José voters approved a \$212 million Library bond to improve the branch library system over a ten-year period. These funds designated in the Library Bond program will support the reconstruction or replacement of 14 existing branches, and the construction of six additional branches in unserved neighborhoods.

***Branch Library
Bond Projects
Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 6,814	\$ 6,772	\$ (42)	(.6%)
<i>Expenditure</i>	59,565	41,932	17,633	29.6%
<i>Fund Balance (est.)</i>	71,194 *	68,985	(2,209)	(3.1%)

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

Interest earnings and a transfer from the Library Construction and Conveyance Tax Fund provided the revenue for this fund in 2006-2007. The negative revenue variance of \$42,000 is the result of the Bascom Avenue site not being sold (\$3.0 million), partially offset by higher than anticipated interest earnings (\$2.9 million) on bond proceeds. It had been anticipated that the land for the original Bascom Branch site would be sold in 2006-2007. It is now anticipated that this property will be sold in 2007-2008.

The positive expenditure variance of \$17.6 million reflects unexpended project funds. Projects with significant variances include the following:

- The East San José Carnegie Branch project had an expenditure variance of \$6.9 million due to a delay in awarding the construction contract because of scope changes resulting from issues related to the site.
- The Edenvale Branch project had an expenditure variance of \$1.8 million due to lower than estimated project management costs and unused project contingency.
- The Educational Park Branch project had an expenditure variance of \$1.6 million due to lower than estimated project management costs and a delay in awarding the design agreement resulting from issues related to the site.

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Branch Library Bond Projects Fund (Cont'd.)

- The Pearl Avenue Branch project had an expenditure variance of \$1.5 million due to lower than estimated project management costs and unused project contingency.
- The Santa Teresa Branch project had an expenditure variance of \$947,000 due to lower than estimated project management costs.
- The Land Acquisition allocation had an expenditure variance of \$881,000 due to land not yet being purchased for the Southeast Branch (the only remaining branch with a site not yet determined).
- The Willow Glen Branch project had an expenditure variance of \$817,000 due to lower than estimated project management costs and unused project contingency.

With the exception of the Cambrian Branch, Evergreen Branch, and Hillview Branch, any unexpended project funds have been or will be rebudgeted to 2007-2008 to ensure adequate funding to complete the projects. The majority of these savings were anticipated and rebudgeted to 2007-2008, with the remaining balance recommended for rebudget and the over-expended amount to be reduced as part of this document.

The 2006-2007 ending fund balance is \$2.2 million lower than the estimate used in the development of the 2007-2008 Adopted Capital Budget primarily due to lower than anticipated revenues (\$1.6 million) and expenditures that exceeded (\$564,000) the estimated level. The sale of property (\$3.6 million) was assumed to occur in 2006-2007 but is now expected to occur in 2007-2008. A revenue rebudget for the sale of property is recommended in this document. On the expense side, adjustments are included in this document for projects that did not meet sufficient savings to cover the original rebudget amount assumed in the 2007-2008 Adopted Capital Budget. In addition, a funding augmentation of \$683,000 for Arbitrage Rebate payments is recommended in this document. With the revenue and expenditure adjustments included in this document, the overall net ending fund balance shall increase by \$1.4 million.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Building and Structure Construction Tax Fund

The Building and Structure Construction Tax is a tax on residential, commercial, and industrial development. The use of these funds, along with grant revenue, is restricted to traffic capital improvements on major arterials and collectors, including bridges, culverts, lighting, and traffic control systems that increase traffic volume.

***Building & Structure
Construction Tax
Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 17,097	\$ 13,577	\$ (3,520)	(20.6%)
<i>Expenditure</i>	51,243	30,232	21,011	41.0%
<i>Fund Balance (est. *)</i>	13,599 *	19,981	6,382	46.9%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

Total revenues of \$13.6 million include receipts from the Building and Structure Construction Tax, grants from the federal government for various Intelligent Transportation Systems (ITS) and seismic bridge retrofit projects, funding from the State government for Street Maintenance, miscellaneous revenue, and interest earnings.

The negative revenue variance (\$3.5 million) was primarily due to lower than anticipated receipts from federal grants (\$5.6 million) and State grants (\$39,000), which are partially offset by higher than anticipated receipts of Building and Structure Construction Tax (\$952,000), interest earnings (\$841,000), and funding from other agencies (\$421,000). At \$10.6 million, Building and Structure Construction Tax receipts in 2006-2007 were 10.1% (\$977,000) higher than 2005-2006 collections (\$9.7 million).

Postponements in certain projects contributed to delays in reimbursements from other agencies. The largest of these were delays in the Intelligent Transportation Systems (ITS) projects, which impacted reimbursements by federal grants. The reimbursement for the ITS: Stevens Creek – West project was \$2.5 million below the budgeted estimate due to a delay in awarding the construction contract since the first round of bids received from contractors were higher than anticipated. As a result, the project was rescoped and will go out for rebid in 2007-2008. Since the ITS: Enhancements project is directly impacted by the ITS: Stevens Creek – West project (the same staffing resources are issued to both projects), the reimbursement for the ITS: Enhancements project was also below the budgeted estimate by \$828,000. Also, the

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Building and Structure Construction Tax Fund (Cont'd.)

reimbursement for the ITS: Transportation Incident Management Center project was \$689,000 below the budgeted estimate due to the rescope of the project, which resulted in many planned projects not being able to proceed. The majority of the delays were anticipated, and revenue for four projects is recommended for rebudget in this report (\$878,000).

Unexpended project funds resulted in a \$21 million positive variance in budgeted program expenditures. Almost all of these funds have been rebudgeted into 2007-2008 or will be recommended for rebudget with this document to ensure sufficient funding for projects in the current year. The variance between budgeted and actual expenditures was caused primarily by the following projects with significant expenditure variances (\$000's):

ITS: Stevens Creek – West	\$	2,952
ITS: Enhancements		2,524
ITS: Transportation Incident Management Center		1,764
Hamilton Ave – Meridian Avenue to Hamilton Way		1,460
Blossom Hill Rd/Monterey Pedestrian Improvements		1,114
Traffic Signals		1,012
Union Avenue at Ross Creek		880
Traffic Signals – Rehabilitation		805
Senter Road: Tully to Singleton		777
Curtner Avenue Widening		640
Hostetter: Sierra Creek to Stone Creek		591
Curb Accessibility Program		505
SJSU to Japantown Pedestrian Corridor		479
ITS: Regional Signal Coordination		409
Total	\$	15,912

Following are descriptions of the projects' variances:

- The ITS: Stevens Creek – West project was delayed due to the delay in award of the construction contract, primarily resulting from the need to rescope and rebid the project due to high bids that were received from contractors. The unexpended funds were rebudgeted as part of the 2007-2008 Adopted Capital Budget for the award of the construction contract.
- The ITS: Enhancements project was delayed due to staffing resources that were affected by the delay in the ITS: Stevens Creek – West project.

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Building and Structure Construction Tax Fund (Cont'd.)

- The ITS: Transportation Incident Management Center (TiMC) project was delayed due to the change in location in the Emergency Communication Dispatch Center (ECDC) renovation project. The delivery of this project is pending the identification of a new location for the TiMC facility.
- The Hamilton Avenue – Meridian Avenue to Hamilton Way project was delayed due to the scope changes required to modify the traffic signal at the intersection of Hamilton and Meridian Avenues. In addition, roadway grades were redesigned to conform to the adjacent properties.
- The Blossom Hill Rd/Monterey Pedestrian Improvements project provides for a conceptual design to construct a pedestrian overcrossing across Monterey Road and Union Pacific Railroad at Blossom Hill Road. The funding for this project was decreased, which resulted in savings, due to the inability to secure approval for the interim safety improvements.
- The Traffic Signals project funds several signal projects each year. A number of the signals originally programmed for award were not awarded during 2006-2007, and this money is recommended for rebudget into 2007-2008 as part of this report to support completion of the signals. The award delays were due to scope changes, coordination with Caltrans in obtaining permit approval, and resolution of design issues with adjacent property owners.
- The Union Avenue at Ross Creek project experienced a delay in design completion as a result of the inability to utilize an existing structural engineering consultant agreement; therefore, a new consultant selection process was necessary prior to the completion of the project design.
- The Traffic Signals – Rehabilitation program provides for proactive rehabilitation of traffic signal equipment to ensure the existing traffic signal system meets current safety standards and miscellaneous rehabilitative improvements. This program had delays in completing several traffic signal projects due to the increase in unanticipated work; in particular, the installation of emergency vehicle preemption devices at 11 intersections along Leigh, Minnesota, and Meridian Avenues. Project priority was shifted to the installation of these devices in order to utilize grant funding before its expiration.
- The Senter Road: Tully to Singleton project generated savings as a result of delays due to the utility pole relocation by PG&E and the construction improvements along the PG&E substation. The savings are recommended for rebudget as part of this report for the completion of this project.

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Building and Structure Construction Tax Fund (Cont'd.)

- The Curtner Avenue Widening project provides funding to developers upon the completion of the public improvements on Curtner Avenue. Since the private developers experienced delays in their schedule, this project has been delayed. The unexpended funds were rebudgeted as part of the 2007-2008 Adopted Capital Budget.
- The Hostetter Road: Sierra Creek to Stone Creek project generated savings since, once the community outreach survey revealed that the community was not in support of the proposed traffic calming improvements, the project was dropped.
- The Curb Accessibility Program project funds were not fully expended in 2006-2007 and the savings are being recommended for rebudget as part of this report for specific curb accessibility improvements throughout the City.
- The SJSU to Japantown Pedestrian Corridor project generated savings due to delays in development activity as a result of issues obtaining building permits for the housing projects in the area. This project is primarily grant funded, and the grant amount is based upon the building permits that are being issued by the City to the private developers. Building permits were only issued to one full housing unit, half of the second unit, and the third unit was not issued building permits; as a result, the savings will be returned to fund balance.
- The ITS: Regional Signal Coordination project was dropped. A portion of the unexpended funds was rebudgeted as part of the 2007-2008 Adopted Capital Budget to support a portion of the local match for a Valley Transportation Authority grant for the ITS: Capitol Light Rail Transit Signal Upgrade project.

The remaining variance (\$5.1 million) reflects unexpended funds in a number of projects with balances of less than \$300,000.

The 2006-2007 ending fund balance variance of \$6.4 million is the result lower than estimated expenditures (\$6.7 million), partially offset by lower than estimated revenues (\$278,000). Most of these expenditure savings are recommended for rebudget as part of this report to provide sufficient funding for projects in the current fiscal year.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Civic Center Construction Fund

The Civic Center Construction Fund accounts for the expenditure of bond proceeds for the new Civic Center project.

Civic Center
Construction Fund
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ -	\$ 746	\$ 746	N/A
<i>Expenditure</i>	6,971	2,012	4,959	71.1%
<i>Fund Balance (est.)</i>	3,768 *	5,755	1,987	52.7%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

In 2006-2007, revenues exceeded budgeted levels due to higher than budgeted interest earnings (\$746,000).

Expenditures ended the year \$5.0 million below the budgeted level. The majority of the variance was in the Watson Park Site Clean-up and Restoration (\$4.0 million) allocation and the City Hall Capital Enhancements appropriation (\$787,000) with smaller variances in the Construction (\$180,000), Public Art (\$23,000), and Design and Construction Management (\$17,000) categories. The lower expenditure level was anticipated at the end of the 2006-2007 and \$2.8 million were approved for rebudget in the 2007-2008 Adopted Capital Budget. Additional rebudget adjustments (\$1.7 million) for the continuation of activities into 2007-2008 are recommended in this report based on actual year-end expenditures. In addition, several augmentations are also recommended in this document. In order to expedite the spending of tax-exempt bond proceeds and based on the expected completion timeline of Watson Park improvements, a funding swap between the General Fund and Civic Center Construction Fund for the Watson Park Site Clean-up and Restoration (currently appropriated in the Civic Center Construction Fund); and the City Hall Network Operations Secondary Cooling System and Police Administration Voice and Data Network Enhancements projects (currently appropriated in the General Fund) is recommended in this document. The total allocation for these projects will not change, however, these actions will allow tax-exempt bond proceeds to be spent consistent with IRS regulations that require the funds be expended or appropriated toward eligible expenditures in a timely manner. Lastly, a transfer to fully fund the anticipated arbitrage rebate liability (\$100,000) is recommended in this document.

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Civic Center Construction Fund (Cont'd.)

The 2006-2007 ending fund balance was \$2.0 million above the estimate used in the development of the 2007-2008 Adopted Capital Budget due to higher than estimated interest earnings (\$246,000) and lower than estimated expenditures (\$1.74 million). The expenditure savings are recommended to be rebudgeted for the continuation of activities into 2007-2008, as described above. The overall cost of the project remains at the \$348.1 million level presented to the City Council as part of the 2007-2008 Adopted Capital Budget.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Civic Center Improvement Fund

The Civic Center Improvement Fund was established in 2003-2004 to account for the technology, furniture, equipment, and relocation costs associated with the new City Hall.

***Civic Center
Improvement Fund***
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 9,248	\$ 686	\$ (8,562)	(92.6%)
<i>Expenditure</i>	10,807	3,368	7,439	68.8%
<i>Fund Balance (est.)</i>	3,229 *	(928)	(4,157)	(128.7%)

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

In 2006-2007, revenues were below the budgeted estimate by \$8.6 million due to lower than budgeted commercial paper proceeds (\$8.7 million), slightly offset by higher than anticipated interest earnings (\$129,000). A lower amount of commercial paper was issued based on the actual expenditure needs in this fund.

Expenditures were \$7.4 million below the budgeted level primarily due to the timing for the acquisition of technology, furniture, and equipment items. The lower expenditure level was anticipated at the end of 2006-2007 and the funds were rebudgeted in the 2007-2008 Adopted Budget. Rebudget adjustments are recommended in this report to adjust the 2007-2008 appropriation based on actual year-end expenditures.

The 2006-2007 ending fund balance was \$4.2 million below the estimate used in the development of the 2007-2008 Adopted Capital Budget due to lower than estimated revenue (\$2.0 million) and higher than expected expenditures (\$2.2 million). On May 15, 2007, the City Council approved the reallocation of trustee-held commercial paper proceeds so that the City could meet the 18-month expenditure exception to the IRS requirement to rebate arbitrage interest earnings on the commercial paper notes. This action was not assumed in the 2006-2007 ending fund balance estimate used to develop the 2007-2008 Adopted Capital Budget.

A negative fund balance of \$928,000 resulted at the end of 2006-2007 due to the timing of payments. Commercial paper proceeds reimburse actual expenditures rather than encumbrances. As a result, there is a timing difference between when an encumbrance is made, when the actual expenditure is paid, and ultimately, when the commercial paper notes are issued to fund

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Civic Center Improvement Fund (Cont'd.)

the expenditures. After all reimbursements are received, it is anticipated that the fund balance will no longer be negative.

Expenditure savings and the associated commercial paper proceeds are recommended to be rebudgeted to 2007-2008 to complete the purchase of the technology, furniture, and equipment for the new City Hall. The overall technology, furniture, and equipment allocation in this fund for new City Hall will remain at the \$38.5 million as reported and approved by the City Council in the 2007-2008 Adopted Capital Budget.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Civic Center Parking Fund

The Civic Center Parking Fund accounts for the expenditure of bond proceeds for the new Civic Center off-site parking garage. In 2001-2002, this Fund also accounted for the new Civic Center on-site parking garage.

***Civic Center
Parking Fund
(\$000s)***

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 24	\$ 2,132	\$ 2,108	8783%
<i>Expenditure</i>	6,871	6,451	420	6.1%
<i>Fund Balance (est.)</i>	2,472 *	2,527	55	2.2%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

In 2006-2007, revenue was generated from commercial paper proceeds (\$2.1 million) and interest earnings (\$49,000). The revenue variance of \$2.1 million is due to higher than budgeted commercial paper proceeds (\$2.1 million) that had not been anticipated when the 2006-2007 budget was developed.

Expenditure variances related to the New Civic Center Parking Garage totaled \$420,000 (6.1%). The majority of these expenditure savings (\$390,000) was anticipated at the end of the 2006-2007 fiscal year and rebudgeted in the 2007-2008 Adopted Capital Budget. Additional expenditure savings (\$30,000) are recommended for rebudget as part of this report.

The 2006-2007 ending fund balance was \$55,000 above the estimate used in the development of the 2007-2008 budget due to higher than anticipated interest earnings (\$26,000) and lower than estimated expenditure savings (\$29,000). It should be noted that \$2.0 million of the \$2.5 million fund balance resulted from the over-issuance of commercial paper proceeds, as previously described in the 2006-2007 Mid-Year Budget Review and the 2007-2008 Adopted Capital Budget. This over-issuance resulted in \$2.0 million of bond proceeds not currently required for this project. The allocation of the remaining interest earnings and extra bond proceeds to a reserve was approved as part of the 2007-2008 Adopted Capital Budget. In the event that this funding is not required for outstanding project costs, this funding would be transferred back to the City Hall Debt Service Fund and used to reduce future debt service payments related to the Civic Center project.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds

The Construction Tax is a flat fee assessed on residential, commercial, and industrial development. The Conveyance Tax is imposed at a rate of \$3.30 per \$1,000 of the value of the conveyed property. Revenues collected in the Construction and Conveyance Tax Funds are dedicated to the Parks and Community Facilities Development, Communications, Fire, Library, and Service Yards capital programs.

Construction and Conveyance Tax Funds

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 80,655	\$ 86,420	\$ 5,765	7.1%
<i>Expenditure</i>	127,655	90,524	37,131	29.1%
<i>Fund Balance (est.)</i>	84,720 *	101,009	16,289	19.2%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

Revenues in 2006-2007 included: Construction and Conveyance tax receipts; transfers between funds; State and federal grants; interest; and miscellaneous revenues.

The elements of the positive \$5.8 million revenue variance were as follows: **(\$000s)**

Construction and Conveyance Tax Revenue	\$ 7,801
Transfers of Construction and Conveyance	
Revenue between funds	5,418
Interest Earnings and Miscellaneous Revenues	275
Grants	<u>(7,729)</u>
Total	\$ 5,765

Construction and Conveyance Tax revenues, which are almost entirely generated from property transfers, experienced a decline in 2006-2007 from the record-setting collection levels experienced in 2005-2006 due to the economic slowdown that has impacted real estate sales. Actual collections for 2006-2007 totaled \$41.8 million, a decrease of almost \$7.2 million (15%) from the prior year collection of \$49.0 million. While revenues fell below the 2005-2006 collection level, they exceeded the budgeted estimate of \$34.0 million by \$7.8 million. When the 2006-2007 budget was developed, it was assumed that receipts would experience sizeable

<p>2006 - 2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

declines from the estimated 2005-2006 collection level based on the sluggish state of the economy. While the drop-off did occur, receipts fell from a much higher 2005-2006 actual collection level than originally estimated.

Consistent with the increase in Construction and Conveyance Tax revenues, the single-family median home price as of June 2007 was \$772,000, 4% higher than the June 2006 figure of \$740,000. However, the number of real estate sales in San José in 2006-2007 fell from the prior year, with a decrease of 24%. The amount of time it takes to sell a home has also increased from 34 days in June 2006 to 44 days in June 2007. The decline in the number of sales and the increase in the days on market are also both indicators of the continuation of the local real estate market slowdown, as reported in previous Monthly Financial Reports.

The higher than anticipated tax collections also positively impacted the transfer category because of the methodology used to distribute the tax revenue to individual Construction and Conveyance Tax funds.

The positive interest earnings and miscellaneous revenues variance was due to higher than expected average cash balances. Grant revenue fell below anticipated levels by \$7.7 million because many of the grants are paid on a reimbursement basis and the work on the eligible projects has not yet been completed. In addition, a number of the projects were recently completed, but the reimbursement requests have not yet been finalized. Most of these grant revenues are expected to be received in 2007-2008.

The expenditure variance of \$37.1 million, or 29.1%, is primarily the result of unexpended capital project funds. The majority of these expenditure savings were anticipated and the funds were rebudgeted to 2007-2008 to complete these projects. Additional rebudgets are recommended in this report to provide sufficient funding to complete the projects.

The following is a list of projects in which unexpended balances exceeded \$300,000:

		<u>(\$000s)</u>
Council District 1:	Youth Center-District 1 (Starbird Youth Center)	\$ 1,067
	Rainbow Park Master Plan	330
	Starbird Park Irrigation Renovation	320
Council District 2:	Strategic Capital Replacement Needs	373
Council District 3:	Roosevelt Community Center – Multi-Service	967
	Strategic Capital Replacement Needs	367

<p align="center">2006 - 2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

Council District 4:	Strategic Capital Replacement Needs	350
Council District 5:	Mayfair Community Center – Satellite	799
	Strategic Capital Replacement Needs	400
Council District 6:	Strategic Capital Replacement Needs	393
Council District 7:	Vietnamese American Community Center	650
	Tully Road Ballfields Parking Lot Improvements	430
	Strategic Capital Replacement Needs	400
Council District 8:	Falls Creek Park Development	569
	Mount Pleasant School District/Fernish Park	400
	Strategic Capital Replacement Needs	363
Council District 9:	Strategic Capital Replacement Needs	400
Council District 10:	Strategic Capital Replacement Needs	400
Central Fund:	Parks Fixtures, Furnishings and Equipment	880
City-Wide:	Happy Hollow Park and Zoo Phase II	2,584
	Renovations	
	Happy Hollow East Side Improvements	1,430
	Kelley Park East Picnic Grounds and Restroom	1,421
	Los Lagos Golf Course Safety Improvements	1,000
	Willow Glen Spur Trail Acquisition	1,000
	Capital Maintenance Projects	897
	Overfelt Garden Irrigation	707
	Regional Park Automated Parking System	593
	Prusch Farm Park Service Yard	565
Communications:	Communication Equipment Replacement and Upgrade	822
	Fire Radio Infrastructure System	438
	Police Dispatch Voting Receivers	362
Fire:	FF&E and Facility Improvements	665
Library:	Libraries Fixtures, Furnishings and Equipment	1,301
	Automation Projects and System Maintenance	613
Park Yards:	Prusch Farm Park Service Yard	851
Service Yards:	Central Service Yard Phase II	<u>1,329</u>
Total		\$26,436

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

Projects with significant variances include the following:

- The Youth Center-District 1 (Starbird Youth Center) project was managed and co-funded by the San José Redevelopment Agency. When the project entered beneficial use (May 2007), the City invoiced the State of California for the Proposition 12 funding that had already been approved for use on this facility. Once this funding (\$900,000) is received, it will be re-paid to the San José Redevelopment Agency. The remaining funds (\$167,000) are being utilized for Department of Public Works design and review inspection services. Any funding not utilized for this purpose will be returned to the Ending Fund Balance of the fund.
- The Rainbow Park Master Plan project was delayed until a location was finalized for the Calabazas Branch Library, since staff is considering locating the Library at Rainbow Park. The master planning process will begin in 2007-2008.
- The Starbird Park Irrigation Renovation project was delayed pending receipt of supplemental funding from the San José Redevelopment Agency. This project is now anticipated to begin in 2007-2008.
- In 2006-2007 the Construction and Conveyance Tax Fund for all ten Council Districts had a \$400,000 allocation for Strategic Capital Replacement Needs. In February 2007, the Parks, Recreation and Neighborhood Services Department presented a funding strategy for Council approval. However, due to the funding strategy approval occurring in the later half of the fiscal year all of the allocations, with the exception of Council District 1, had a project expenditure variance exceeding \$300,000. It is anticipated that this funding will, however, be expended in 2007-2008.
- The Roosevelt Community Center – Multi-Service project produced a project variance due to a delay in the construction award. When this project was initially advertised, all bids received were much higher than anticipated. The project was therefore re-advertised and re-bid which resulted in more favorable bids being received.
- The Mayfair Community Center – Satellite project produced an expenditure variance due to a delay in encumbering the construction contract.
- The Vietnamese American Community Center project was delayed to explore the potential of using an existing City facility as an alternative site for the Community Center.

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

- The Tully Road Ballfields Parking Lot Improvements project was delayed to accommodate other priority projects.
- The Falls Creek Park Development project was delayed due to a delay in approval of the Master Plan.
- The Mount Pleasant School District/Fernish Park project was cancelled because the City and School District partnership for the project did not materialize.
- The Parks and Library Furniture, Fixtures and Equipment allocations provide funding to outfit the General Obligation Bond-funded park facilities and libraries. All unexpended funds are carried over to the following year to purchase the necessary furniture, fixtures and equipment for the new and remodeled park facilities and libraries as these facilities come on-line.
- The Happy Hollow Park and Zoo Phase II Renovations, Happy Hollow East Side Improvements and Kelley Park East Picnic Grounds and Restroom allocations all provide supplemental funding for the Parks and Recreation Bond Projects funded Happy Hollow Park and Zoo Renovations and Improvements project. This project has experienced delays due to the need to identify additional funding and to re-scope the project resulting from escalating project costs.
- The Los Lagos Golf Course Safety Improvements project had a delay in receiving California Environmental Quality Act (CEQA) clearance and master plan review approval.
- The Willow Glen Spur Trail Acquisition project was delayed due to the need to complete a site contamination study which resulted in involving the State Department of Toxic Substance Control (DTSC) to determine the appropriate method to clean-up the site.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction Excise Tax Fund

The Construction Excise Tax, also referred to as the Commercial, Residential, and Mobile Home Park Building Tax, is a tax on construction of residential, commercial, and mobile home developments. This general purpose tax is based on building valuation, with revenues in the Fund historically being used primarily for traffic improvements.

***Construction Excise
Tax Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 36,075	\$ 29,437	\$ (6,638)	(18.4%)
<i>Expenditure</i>	57,864	37,809	20,055	34.7%
<i>Fund Balance (est. *)</i>	12,004 *	15,122	3,118	26.0%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop to the 2007-2008 Adopted Budget.

Total revenues of \$29.4 million include receipts from the Construction Excise Tax, State and federal grants, developer contributions, interest, and other miscellaneous revenues.

The negative revenue variance (\$6.6 million) is due primarily to delays in federal grant reimbursement for federal Street Maintenance (\$7.9 million variance). In contrast, this variance is offset slightly by higher than anticipated receipts in other revenue categories including the Construction Excise Tax (\$793,000), interest earnings (\$506,000), and for Fiber Optics Permit Fees (\$303,000) were received in 2006-2007. At \$14.5 million, Construction Excise Tax receipts in 2006-2007 outperformed budgeted estimates of \$13.7 million (estimates were exceeded by \$793,000), and are 3.0% (\$418,000) above 2005-2006 collections (\$14.1 million). Receipts also remained 30.1% below 2000-2001 record revenues of \$20.7 million.

Unexpended project funds resulted in a \$20.1 million positive variance in budgeted program expenditures. Almost all of these funds have been rebudgeted into 2007-2008 or will be recommended for rebudget as part of this document to ensure sufficient funding for projects in the current year.

2006-2007 ANNUAL REPORT

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction Excise Tax Fund (Cont'd.)

The variance between budgeted and actual expenditures was caused primarily by the following projects with significant expenditure variances (\$000's):

TCRP Payback – Street Maintenance	\$	6,851
Street Maintenance		3,739
Federal Street Maintenance		2,041
Prop 42 Street Pavement Maintenance		1,453
Traffic Calming		887
Refund to Developers		662
North San José Deficiency Plan Improvements		<u>444</u>
Total	\$	16,077

Following are descriptions of the project variances:

- The TCRP Payback – Street Maintenance project funds street maintenance for the City such as surface sealing and street resurfacing. Funds that were not encumbered in 2006-2007 have been rebudgeted as part of the 2007-2008 Adopted Capital Budget to continue to support street sealing and resurfacing work.
- The Street Maintenance project funds street maintenance for arterial and residential streets at various locations throughout the City. Work in the amount of \$6.4 million was completed on this project in 2006-2007, and the remainder of the funds is being recommended for rebudget into 2007-2008 as part of this document to support the completion of the slurry seal and street resurfacing project at various City street locations as identified by the Pavement Management System.
- The Federal Street Maintenance project funds street resurfacing on selected qualifying arterial streets in the City to meet State and federal requirements. In order to take advantage of more favorable bidding, this project combines several smaller resurfacing projects into one larger project. Work in the amount of \$7.4 million was completed on this project in 2006-2007, and the remainder of the unexpended funds is being recommended for rebudget into 2007-2008 as part of this document. The rebudget of these funds along with new 2007-2008 funds will support construction of the project which will be completed in 2007-2008.

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction Excise Tax Fund (Cont'd.)

- The Prop 42 – Street Pavement Maintenance project utilizes State grant funding to perform street sealing and resurfacing of various City streets, thereby improving the overall condition of the City's street network. Work in the amount of \$2.2 million was completed in 2006-2007, and the remainder of the unexpended funds is being recommended for rebudget into 2007-2008 as part of this document to support the completion of projects.
- The Traffic Calming appropriation is an annual program funding various projects in coordination with neighborhoods and Council Offices. The remaining balance has been rebudgeted into 2007-2008 as part of the 2007-2008 Adopted Capital Budget, and is being recommended for rebudget as part of this document to continue work on these projects.
- The Refund to Developers appropriation funds the reimbursements to developers for Construction Tax revenues that were erroneously charged to several Downtown projects that were eligible for exemptions. The unexpended funds for the reimbursements have been rebudgeted into 2007-2008 as part of the 2007-2008 Adopted Capital Budget to fully reimburse the developers.
- The North San José Deficiency Plan Improvements appropriation funds sidewalk improvements and congestion mitigation in the North San José area. The two sidewalk projects currently funded in this appropriation have been completed and a small portion of the unexpended funds is being recommended for rebudget into 2007-2008 as part of this document for the costs associated with the close-out of the projects.

The remaining variance (\$4.0 million) reflects unexpended funds in a number of projects with balances of less than \$300,000.

The 2006-2007 ending fund balance is \$3.1 million higher than the estimated fund balance of \$12.0 million used in the development of the 2007-2008 Adopted Capital Budget. This variance reflects a combination of lower than estimated expenditures (\$9.3 million) partially offset by lower than estimated revenues (\$6.2 million). About half of the expenditure savings (\$10.2 million) and some adjustments to revenues (\$8.1 million) are recommended for budget actions as part of this document to provide sufficient funding for projects in the current fiscal year.

<p align="center">2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Emma Prusch Fund

The Emma Prusch Fund accounts for the sale or rental of any portion of the property at Emma Prusch Farm Park. All revenue received in this fund are dedicated to capital improvements and maintenance of Emma Prusch Farm Park.

Emma Prusch Fund

<i>((\$000s))</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 78	\$ 82	\$ 4	5.1%
<i>Expenditure</i>	138	108	30	21.7%
<i>Fund Balance (est.)</i>	243 *	251	8	3.3%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The positive revenue variance of \$4,000 primarily reflects higher than anticipated interest earnings (\$3,000).

The positive variance in project expenditures (\$30,000) reflects unexpended project funds. A large portion of the variance between the budgeted estimate and actual expenditures was a result of the LeFevre House Improvements project (\$22,000) experiencing delays due to ongoing issues between the City and the project's contractor. The project was completed in May 2007, however funding was rebudgeted to 2007-2008 as part of the 2007-2008 Adopted Capital Budget for post-construction needs.

The 2006-2007 ending fund balance variance of \$8,000 is the result of lower than estimated expenditures. As mentioned above, this document includes a recommendation to rebudget this funding to provide sufficient funding for the Emma Prusch Farm Park Windmill project in 2007-2008.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Hayes Mansion Phase III Bond Fund

The Hayes Mansion Phase III Bond Fund accounts for the financing and the construction costs of the Phase III expansion at the Hayes Conference Center.

***Hayes Mansion Phase III
Bond Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ -	\$ 116	\$ 116	N/A
<i>Expenditure</i>	423	398	25	5.9%
<i>Fund Balance (est.)</i>	104 *	245	141	135.6%

** Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget*

The positive revenue variance of \$116,000 is solely due to interest earnings from bond proceeds. There was no revenue estimated in this Fund since this Fund was intended to be closed out and all remaining fund balance was to be transferred to the Community Facilities Revenue Fund for debt service payments.

The expenditure variance of \$25,000 is due to delays in purchasing public art for the Hayes Mansion. A rebudget of \$25,000 for the public art allocation is recommended in this report.

The 2006-2007 ending fund balance is higher than estimated due to the combination of higher than expected revenues and lower than estimated expenditures.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Interim City Facilities Improvements Fund

The Interim City Facilities Improvements Fund was established in 2003-2004 to account for interim improvements to City facilities that would be necessary to continue operating these facilities.

***Interim City Facilities
Improvements Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 1,464	\$ 5	\$ (1,459)	(99.7%)
<i>Expenditure</i>	1,464	5	1,459	99.7%
<i>Fund Balance (est. *)</i>	- *	-	-	0.0%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

In 2006-2007, minimal activity occurred in the Interim City Facility Improvement Fund. Commercial Paper in the amount of \$1.5 million was approved to be carried forward into 2007-2008 in the Adopted Capital Budget.

<p align="center">2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Lake Cunningham Fund

The Lake Cunningham Fund accounts for concessionaire and parking lot revenues that are dedicated to capital improvements and maintenance of Lake Cunningham Park.

Lake Cunningham Fund

<i>(\$000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 636	\$ 778	\$ 142	22.3%
<i>Expenditure</i>	1,985	1,675	310	15.6%
<i>Fund Balance (est.)</i>	647 *	705	58	9.0%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The positive revenue variance of \$142,000 reflects higher than anticipated parking revenue (\$88,000), lease payments (\$37,000) and interest earnings (\$17,000).

The positive expenditure variance of \$310,000 reflects unexpended project funds. Projects with significant variances include the following:

- The Lake Cunningham Perimeter Landscaping project produced a variance of \$140,000 due to the project experiencing delays. After the project scope was initially determined, it was realized the Valley Transportation Authority had preliminary engineering plans for the Capitol Expressway Light Rail project, which interfered with a portion of the Lake Cunningham Perimeter Landscaping project. The project has been rescope and is expected to be completed by February 2008.
- The Lake Cunningham Public Art allocation produced a variance of \$62,000 due to the Office of Economic Development and Parks, Recreation and Neighborhood Services Department not yet finalizing a public art project for the Park. A final project concept and design implementation should occur in 2007-2008.

The majority of savings for projects in this Fund were anticipated and \$232,000 was rebudgeted to 2007-2008 in the Adopted Capital Budget. As part of this document, additional funding of \$38,000 is recommended to be rebudgeted to 2007-2008 to ensure sufficient funding to complete these projects.

The 2006-2007 ending fund balance variance of \$58,000 is the result of higher than estimated revenues (\$20,000) and lower than estimated expenditures (\$38,000). As mentioned above, this

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Lake Cunningham Fund (Cont'd.)

document includes recommendations to rebudget a majority of the expenditure savings to provide sufficient funding for projects in 2007-2008.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Major Collectors and Arterials Fund

The Major Collectors and Arterials Fund is for the collection of monies owed by developers for previously completed street improvements. Funds are also utilized for median island landscaping projects.

***Major Collectors
and Arterials Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 290	\$ 117	\$ (173)	(59.7%)
<i>Expenditure</i>	794	786	8	1.0%
<i>Fund Balance (est. *)</i>	915 *	750	(165)	(18.0%)

** Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.*

Total revenues (\$117,000) were lower than budgeted by \$173,000. The variance was due to lower than anticipated developer contributions (\$186,000), partially offset by higher than anticipated interest earnings (\$13,000). Developer contributions were below budgeted levels as a result of a downward economic trend for neighborhood developments, thus, fewer developed arterial and major collector streets.

Expenditures were slightly below the modified budget by \$8,000 due to savings in the Traffic Signals project.

The 2006-2007 ending fund balance negative variance of \$165,000 reflects the combined impact of the lower than estimated revenues from developer contributions (\$173,000), only slightly offset by lower than anticipated expenditures (\$8,000) in the Traffic Signals project. Sufficient ending fund balance is available to offset this variance.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS

Major Facilities Fund

The Major Facilities Fund is part of the Water Utility System Capital Program. This Fund receives fees associated with the connection and operation of municipal water activities for major water facilities constructed in the North San José, Evergreen, Alviso, Edenvale, and Coyote areas. Developer's fees are paid for the future construction of large water mains, reservoirs, and other large projects.

Major Facilities Fund

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 255	\$ 134	\$ (121)	(47.5%)
<i>Expenditure</i>	504	342	162	32.1%
<i>Fund Balance (est.)</i>	3,241 *	3,282	41	1.3%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget

The negative revenue variance (\$121,000) resulted from lower than budgeted Major Facilities Fees (\$146,000) partially offset by higher interest earnings (\$25,000). Major Facilities Fees were lower than estimated due to lower than anticipated development activity

Expenditure savings (\$162,000) occurred primarily due to the discontinuation of the Gold Street Main Relocation project (\$146,000) as the project is no longer considered a priority; therefore, funding is being reallocated to other projects.

The positive fund balance variance (\$41,000) resulted from the combination of project savings (\$162,000) offset by lower than estimated fee revenue (\$121,000).

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Neighborhood Security Act Bond Fund

On March 5, 2002, 72% of the voters in San José approved Measure O, the “9-1-1, Fire, Police, Paramedic and Neighborhood Security Act” (Neighborhood Security Act Bond Measure). This bond measure authorized the City to issue General Obligation Bonds in an amount not to exceed \$159 million to fund projects in both the Police and Fire Departments.

Neighborhood Security Act
Bond Fund Projects
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 73,290	\$ 71,063	\$ (2,227)	(3.0%)
<i>Expenditure</i>	54,918	32,878	22,040	40.1%
<i>Fund Balance (est. *)</i>	91,238	90,372	(866)	(.9%)

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

General Obligation Bond proceeds (G.O. Bonds) and interest earnings provide the funding for projects in the Neighborhood Security Act Bond Fund. The negative revenue variance of \$2.2 million is the result of lower than budgeted bond proceeds (\$5.4 million), partially offset by higher than budgeted interest earnings (\$3.2 million) generated from the 2006-2007 bond proceeds.

The expenditure savings of \$22.0 million reflect unexpended project funds. During the development of the 2007-2008 Adopted Budget, \$19.9 million of savings were anticipated at the end of 2006-2007 and were rebudgeted to 2007-2008. An additional \$2.0 million in rebudget requests are also recommended as part of this document. A downward adjustment is recommended for the Fire Station 12 - Relocation project (\$242,000) because the year-end expenditure savings were insufficient to cover the rebudget amounts assumed in the development of the 2007-2008 Adopted Budget.

The 2006-2007 fund balance ended the year \$866,000 lower than the estimate used in the development of the 2008-2012 Adopted CIP, partially due to lower than estimated revenues (\$2.9 million), resulting from lower than estimated bond proceeds (\$4.6 million) offset by higher than estimated interest (\$1.7 million). A rebudget of bond proceeds (\$4.6 million) is recommended in this document in order to return the program to its full bonding capacity, as approved by voters in the Neighborhood Security Act measure. In addition, lower than estimated expenditures (\$2.1 million) also contributed to the fund balance variance. As previously discussed, various

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Neighborhood Security Act Bond Fund (Cont'd.)

expenditure adjustments including the rebudget of unexpended 2006-2007 project funds into 2007-2008 (\$2.0 million) and an augmentation of \$254,000 for Arbitrage Rebate payments are recommended in this document. If approved, the recommended revenue and expenditure adjustments will increase the ending fund balance by \$1.5 million and these funds would be programmed during the next budget process.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Park Trust Fund

The Park Trust Fund accounts for a fee received from developer's in-lieu of land dedicated for park and recreation development in residential areas. Monies in this Fund, including interest earnings, must be expended solely for the acquisition or improvements of parkland within the residential areas where the in-lieu fees were paid.

Park Trust Fund

<i>(\$000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 107	\$ 15,289	\$ 15,182	14188.8%
<i>Expenditure</i>	23,042	7,761	15,281	66.3%
<i>Fund Balance (est. *)</i>	79,333 *	85,006	5,673	7.2%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

Under current City Council policy, in-lieu fee revenues in the Park Trust Fund are recognized and budgeted in the year following the receipt of the funds, in recognition of the fact that these revenues cannot be reasonably estimated from year-to-year. As a result, there are typically large positive revenue variances each year. In 2006-2007, this positive variance is primarily the result of in-lieu fees (\$12.2 million) and interest earnings (\$2.9 million).

The positive expenditure variance of \$15.3 million reflects unexpended project funds. Projects with significant variances include the following:

- The Mayfair Community Center - Satellite project had expenditure savings of \$2.7 million due to a delay in encumbering the construction contract.
- The Solari Community Center – Multi-Service project provides supplemental funding to the Parks and Recreation Bond Projects funded project. This allocation generated expenditure savings of \$800,000 due to the funds being allocated before they were needed.
- The KB Home Reimbursement-Tuscany Hills allocation (\$771,000) was not expended due to the late appropriation of these funds (item was approved on June 5, 2007 by the City Council).

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Park Trust Fund (Cont'd.)

- The Martin Park Expansion project had an expenditure variance of \$702,000. This project is located in a former landfill site and environmental processes relating to the closure of the landfill has taken longer than originally anticipated.
- The Penitencia Creek Dog Park (District 4 Dog Park) project (\$685,000) was delayed due to coordination issues involving joint use agreements with the County of Santa Clara.
- The Falls Creek Park Development project had an expenditure variance of \$442,000 due to a delay in the approval of the master plan which in turn delayed the award of the construction contract.
- The Wallenberg Dog Park project had an expenditure variance of \$425,000 due to the project being placed on hold pending additional input from the community.
- The Fontana Dog Park Improvements project had an expenditure variance of \$414,000 due to a change in the project scope to accommodate the use of decomposed granite instead of artificial turf.
- The Berryessa Creek Park Play Lot Renovation project had an expenditure variance of \$405,000 due to a delay in the start of the project.

The majority of savings for projects in this fund were anticipated and \$11.3 million was rebudgeted to 2007-2008 in the Adopted Capital Budget. As part of this document, additional funding of \$1.4 million is recommended to be rebudgeted to 2007-2008 to ensure sufficient funding to complete these projects.

The 2006-2007 ending fund balance variance of \$5.7 million is primarily the result of higher than anticipated in-lieu fees (\$3.0 million) and interest earnings (\$1.2 million), and lower than anticipated project expenditures (\$1.4 million). Revenues received in 2006-2007 will be programmed into the 2008-2009 Proposed Capital Budget and this document includes recommendations to rebudget a majority of the expenditure savings to provide sufficient funding for projects in 2007-2008.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Parks and Recreation Bond Projects Fund

On November 7, 2000, San José voters approved a bond measure totaling \$228 million to finance the construction of improvements to regional and neighborhood parks and recreation facilities over a ten-year period. The Parks and Recreation Bond Projects Fund was established to account for the expenditure of those bond proceeds.

***Parks and Recreation
Bond Projects Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 50,000	\$ 27,624	\$ (22,376)	(44.8%)
<i>Expenditure</i>	91,974	29,685	62,289	67.7%
<i>Fund Balance (est.)</i>	88,212 *	95,447	7,235	8.2%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

General Obligation Bond proceeds (G.O. Bonds) and interest earnings are the primary sources of revenue for this Fund. The negative variance in revenue (\$22.4 million) primarily represents lower than anticipated bond sales (\$25.7 million). The budgeted amount represents two years worth of bond proceeds; however, in 2006-2007 it was decided to sell the bonds each year, therefore only \$22.1 million was sold, rather than the budgeted amount of \$47.8 million. This variance was partially offset by higher than anticipated interest earnings on the bond proceeds (\$3.3 million).

The positive expenditure variance of \$62.3 million reflects unexpended project funds. Projects with significant variances include the following:

- The Happy Hollow Park and Zoo Renovations and Improvements project generated a variance of \$41.2 million due to project delays. Due to escalating project costs, it was necessary for City staff to find additional funding for the project, and for the project to be re-scoped to bring the estimated cost in line with available project funds.
- The Mayfair Community Center - Satellite project produced a variance of \$10.5 million due to a delay in encumbering the construction contract.
- The Public Art-Parks and Recreation Bond Projects produced a variance of \$2.2 million due to the delays in purchasing public art for various facilities.

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Parks and Recreation Bond Projects Fund (Cont'd.)

- The Bascom Community Center – Multi-Service project produced a variance of \$1.4 million due to a delay in acquiring the property for the joint Community Center and Branch Library.
- The Almaden Community Center – Multi-Service project produced a variance of \$1.3 million due to lower than estimated project management costs and unused project contingency.
- The Roosevelt Community Center – Multi-Service project produced a variance of \$1.3 million due to a delay in the construction award. The project had to be re-bid due to the fact that the initial bids received were significantly higher than the project budget.
- The Coyote Creek Trail (Tully Road to Los Lagos Golf Course) project produced a variance of \$1.2 million due to more extensive community outreach than originally anticipated and to identify and design an alternative to the original trail alignment (since the original trail alignment overlapped with private property).

The majority of savings for projects in this Fund were anticipated and \$57.6 million was rebudgeted to 2007-2008 in the Adopted Capital Budget. As part of this document, additional funding of \$3.2 million is recommended to be rebudgeted to 2007-2008 to ensure sufficient funding to complete these projects.

The 2006-2007 ending fund balance is \$7.2 million higher than the estimate used in the development of the 2006-2007 Adopted Capital Budget primarily due to higher than anticipated interest earnings (\$1.5 million) and bond proceeds (\$1.1 million), and lower than anticipated project expenditures (\$4.6 million). As mentioned above, this document includes recommendations to rebudget a majority of the expenditure savings to provide sufficient funding for projects in 2007-2008. In addition, a funding augmentation of \$274,000 for Arbitrage Rebate payments is recommended in this document. If approved, with the expenditure adjustments included in this document, the ending fund balance would increase by \$3.0 million.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Residential Construction Tax Fund

The Residential Construction Tax Fund accounts for taxes imposed upon the construction of single family dwelling units or mobile home lots in the City. The tax is collected and placed in the Residential Construction Tax Contribution Fund and is used to reimburse developers who constructed that portion of an arterial street which is wider than that which is normally required in connection with residential development.

***Residential
Construction Tax
Fund***
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 250	\$ 312	\$ 62	24.8%
<i>Expenditure</i>	895	183	712	79.6%
<i>Fund Balance (est. *)</i>	1,370 *	1,337	(33)	(2.4%)

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The positive revenue variance of \$62,000 is the result of higher than anticipated Residential Construction Tax receipts.

The positive expenditure variance primarily reflects savings in the Reimbursements to Developers for Landscaping (\$464,000), Reimbursement to Developers for Center Strip Paving (\$178,000), and Street Improvements for New Developments (\$54,000) appropriations. The majority of these savings were anticipated and rebudgeted to 2007-2008 in the Adopted Capital Budget.

The 2006-2007 negative fund balance variance of \$33,000 is the result of higher than estimated expenditures (\$90,000) partially offset by higher than estimated revenues (\$56,000). A downward adjustment to the rebudgets approved as part of the 2007-2008 Adopted Budget is recommended in this report based on actual expenditures.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Capital Fund

The San José/Santa Clara Treatment Plant Capital Fund accounts for the construction of improvements and the purchase of equipment for the Water Pollution Control Plant (WPCP).

***San José/Santa Clara
Treatment Plant
Capital Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 28,031	\$ 24,415	\$ (3,616)	(12.9%)
<i>Expenditure</i>	105,070	77,418	27,652	26.3%
<i>Fund Balance (est.)</i>	60,227 *	65,823	5,596	9.3%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget

The negative revenue variance (\$3.6 million) primarily reflects the lower than budgeted receipt of funds for contributions from tributaries agencies for unexpended WPCP projects (\$4.4 million) and equipment replacement contributions (\$591,000). Revenue from the United States Bureau of Reclamation Grant was also lower than estimated (\$1.5 million). The lower than expected revenues were offset by higher than budgeted interest earnings (\$2.6 million) and miscellaneous revenues (\$250,000).

Unexpended project funds resulted in a \$27.7 million positive variance in budgeted program expenditures. A portion of these savings (\$17.8 million) was anticipated and rebudgeted in the 2007-2008 Adopted Capital Budget. Much of the remaining expenditure savings is recommended to be rebudgeted in this document. The following is a list of projects that had an unexpended balance exceeding \$300,000:

	<u>(\$000s)</u>
Plant Infrastructure Improvements	\$ 9,139
Alternative Disinfection Study	6,291
Revised South Bay Action Plan – SBWR Extension	5,217
WPCP Reliability Improvements	3,258
Plant Master Plan (formerly known as Bio Solid Master Plan)	1,000
M5, Ring Buss and Cable Replacement	788
Equipment Replacement	730
Fire Line Replacement	350
Total	\$ 26,773

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Capital Fund (Cont'd.)

The following is an explanation of significant project variances:

- Plant Infrastructure Improvements – This recurring, annual allocation funds improvements, rehabilitation, and replacement of existing Plant infrastructure. A total of \$7.0 million was rebudgeted as part of the 2007-2008 Adopted Capital Budget. As part of this document, the remaining (\$2.1 million) is recommended to be reallocated to the Digester Rehabilitation and Upgrade project (formerly known as Scum Digestion). In addition, a reallocation of 2007-2008 funds (\$1.9 million) is recommended from this appropriation to the Digester Rehabilitation and Upgrade project.
- Alternative Disinfection – This project is currently under design with the award of construction planned for the first quarter of 2008. Design completion took longer than anticipated for several reasons, including evaluation of other feasible alternatives, additions to the scope of services, and design changes. The expenditure savings in this project were anticipated and the funds were rebudgeted in 2007-2008.
- Revised South Bay Action Plan – SBWR – This project is currently underway. All remaining balance is recommended to be rebudgeted to 2007-2008 to fund the City's share of the partnership with the Santa Clara Valley Water District for alternative water technology projects.
- WPCP Reliability Improvements – This project is currently under construction and estimated to be completed during 2007-2008. Of the \$3.3 million remaining in the project, approximately \$2 million was rebudgeted in the Adopted Capital Budget for an additional contingency for asbestos abatement and final construction close out costs. The remaining funds were re-budgeted for programmed staff costs, including project management, and inspection and engineering services to be charged during 2007-2008. Due to insufficient savings to cover the original rebudget amount, a downward adjustment of \$355,000 is recommended for this project.
- Plant Master Plan (formerly know as Bio Solid Master Plan) – The expenditure savings in this project were anticipated and the funds were rebudgeted to 2007-2008.
- M5, Ring Buss and Cable Replacement — This project is currently under preliminary design with award of the design-build contract planned in the first quarter of 2008. The expenditure savings of \$788,000 in this project were anticipated and were rebudgeted to 2007-2008.

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Capital Fund (Cont'd.)

- Equipment Replacement – This recurring, annual allocation funds the replacement and rehabilitation of WPCP equipment as needed. The remaining savings of \$730,000 is recommended to be rebudgeted for planned rehabilitation and replacement projects.
- Fire Line Replacement – The award of the contract is expected to occur in 2007-2008. These savings are recommended to be rebudgeted in this document.

The remaining \$927,000 variance involves a number of projects with savings of less than \$300,000.

The San José/Santa Clara Treatment Plant Capital Fund ended the year above the estimated fund balance (\$5.6 million variance) primarily due to lower than estimated expenditures. The majority of these savings were anticipated and were rebudgeted as part of the 2007-2008 Adopted Capital Budget.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sanitary Sewer Connection Fee Fund

The Sanitary Sewer fees are connection fees charged to new development to access the City's sanitary sewer system. The use of these funds are restricted to the construction and reconstruction of the system.

Sanitary Sewer Connection Fee Fund

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 2,007	\$ 2,188	\$ 181	9.0%
<i>Expenditure</i>	20,942	4,328	\$ 16,614	79.3%
<i>Fund Balance (est.)</i>	13,551 *	19,866	\$ 6,315	46.6%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget

The positive revenue variance of \$181,000 reflected higher than anticipated interest earning (\$418,000), connection fees (\$136,000), and operating revenue (\$37,000), partially offset by lower than estimated Joint Participation revenues (\$411,000). Joint Participation revenues were lower than estimated due to schedule changes in several projects that reduced the amount of revenues received.

The \$16.6 million positive expenditure variance was primarily attributed to lower than estimated project expenditures. Of this amount, \$8.8 million was rebudgeted in the 2007-2008 Adopted Capital Budget. Additional rebudgets of \$5.0 million are recommended in this report.

The following is a list of major unexpended projects:

	(\$000s)
Edenvale Sanitary Sewer Supplement Phase VA & VB	\$ 8,235
Miscellaneous Rehabilitation Projects	2,257
Flow Monitoring Program (Master Planning)	2,032
Inflow and Infiltration Reduction	1,988
Alum Rock Avenue Sanitary Sewer Rehabilitation	905
Miscellaneous Projects	<u>850</u>
Total	\$ 16,267

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sanitary Sewer Connection Fee Fund (Cont'd.)

The following is an explanation of project variances:

- Edenvale Sanitary Sewer Supplement, Phase VA & VB – Design of this project is currently underway and continuing into 2007-2008. A rebudget of \$8.24 million was included in the 2007-2008 Adopted Capital Budget to fund ongoing design and construction. However, this project did not meet sufficient year-end savings to cover the original rebudget amount assumed in the 2007-2008 Adopted Capital Budget. As a result, a small budget reduction (\$5,000) is recommended in this document.
- Miscellaneous Rehabilitation Projects – Savings in this category, designated for urgent pipe repair or rehabilitation, resulted because a portion of these funds was not needed in 2006-2007. The rebudget of unexpended funding of \$2,257,000 is recommended in this document to fund various sanitary sewer projects.
- Flow Monitoring Program (Master Planning) – Savings in this category, designated for master planning and system analysis of the collection system, resulted because a portion of these funds was not needed in 2006-2007. Funding of \$50,000 was rebudgeted in the 2007-2008 Adopted Capital Budget to fund continuing master planning activities. A rebudget of \$1,982,000 is recommended in this document to provide sufficient funding for ongoing sewer flow monitoring and city-wide sanitary sewer master planning needed to identify capacity improvement needs.
- Inflow and Infiltration Reduction – Cost savings in this category, designated for responses to infiltration and inflow into the sewer system, resulted because a portion of these funds was not needed in 2006-2007. The rebudget of the savings (\$1,988,000) is recommended in this document for ongoing condition assessment, preliminary engineering, and project design for the Capital Improvement Program.
- Alum Rock Avenue Sanitary Sewer Rehabilitation – This project was awarded in September 2007. A rebudget of \$950,000 was included in the 2007-2008 Adopted Capital Budget to fund ongoing design and construction. However, this project did not meet sufficient year-end savings to cover the original rebudget amount assumed in the 2007-2008 Adopted Capital Budget. As a result, a budget reduction (\$45,000) is recommended in this document.

<p>2006 - 2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sanitary Sewer Connection Fee Fund (Cont'd.)

- Miscellaneous Projects – Savings in this category, designated for scheduled pipe repair or rehabilitation, resulted because the majority of these funds were not expended in 2006-2007. A rebudget of unexpended funding of \$836,000 is recommended in this document to fund various unanticipated sanitary sewer rehabilitation projects requiring maintenance and repair.

The remaining \$347,000 expenditure variance involves a number of projects with savings of less than \$150,000.

In addition to the rebudgets mentioned above, project savings totaling \$6,000 is recommended for rebudget to 2007-2008 for the Monterey-Riverside Supplement project for ongoing construction and close-out costs.

The Sanitary Sewer Connection Fee Fund ended the year above the estimated fund balance (\$6.3 million variance) due to higher than estimated revenues and higher than estimated expenditure savings. As previously described, the majority of these savings (\$5.1 million) are recommended for rebudget to 2007-2008 in this document.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sewer Service and Use Charge Capital Improvement Fund

The Sewer Service and Use Charge Capital Improvement Fund receives funding from the Sewer Service and Use Charge Operating Fund. These funds are used for the reconstruction of the Sanitary Sewer System.

***Sewer Service and
Use Charge Capital
Improvement Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 16,236	\$ 17,029	\$ 793	4.9%
<i>Expenditure</i>	46,743	18,965	\$ 27,778	59.4%
<i>Fund Balance (est.)</i>	22,070 *	39,614	\$ 17,544	79.5%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget

The positive revenue variance of \$793,000 is solely due to higher than budgeted interest earnings.

The \$27.8 million positive variance in expenditures is primarily attributed to lower than estimated project expenditures. Of this amount, \$11.4 million of project savings were anticipated and were rebudgeted in the 2007-2008 Adopted Capital Budget. The majority of the remaining expenditure savings (\$9.1 million) are recommended for rebudget as part of this Annual Report. The following is a list of projects that had an unexpended balance exceeding \$300,000:

	<u>(\$000s)</u>
Edenvale Sanitary Sewer Supplement	\$ 10,616
Phases VA and VB	
84" RCP Interceptor, Phases VB and VIB	3,547
Fourth Interceptor, Phases VIA and VIB	3,078
Inflow and Infiltration Reduction	3,069
Miscellaneous Projects	1,813
Miscellaneous Rehabilitation Projects	1,687
Flow Monitoring Program - Master Planning	1,446
Preliminary Engineering	559
Willow-Union Trunk Sewer	556
Program Management	<u>500</u>
Total	\$ 26,871

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sewer Service and Use Charge Capital Improvement Fund (Cont'd.)

The following is an explanation of project variances:

- Edenvale Sanitary Sewer Supplement, Phase VA and VB – Design of this project is currently underway and continuing into 2007-2008. A rebudget of \$9.0 million was included in the 2007-2008 Adopted Capital Budget to fund ongoing design work and construction. The remaining allocation of \$1,616,000 is recommended to be rebudgeted in this document to ensure that sufficient funding is available to complete this project.
- 84" RCP Interceptor, Phase VB and VIB – Phase VIB was awarded in June 2005. A rebudget of \$1.0 million was included in the 2007-2008 Adopted Capital Budget. A rebudget of \$500,000 is recommended for remaining construction and contingency costs.
- Fourth Interceptor, Phase VIA and VIB – This project was deferred pending the outcome of the preliminary investigation. No rebudget is being recommended at this time; however, staff will continue to monitor this project and money may need to be reallocated to this project in the future.
- Inflow and Infiltration Reduction – Funding for this project is designated for responses to infiltration and inflow reduction into the sewer system. The remaining balance of \$3,069,000 is recommended to be rebudgeted in this document to fund ongoing condition assessment, preliminary engineering, and project design for the Capital Improvement Program.
- Miscellaneous Projects – Funding for this project is designated for scheduled pipe repair or rehabilitation. Savings occurred due to less than anticipated project needs. The rebudget of \$1,813,000 to 2007-2008 is recommended in this document to fund various anticipated sanitary sewer rehabilitation projects.
- Miscellaneous Rehabilitation Projects – Funding for this project is designated for emergency pipe repair or rehabilitation. Savings occurred due to less than anticipated needs for emergency repairs. The rebudget of the unexpended funding of \$1,667,000 is recommended in this document to fund various anticipated sanitary sewer projects.
- Flow Monitoring Program-Master Planning – Funding for this project is designated for master planning and system analysis of the collection system. Saving occurred due to schedule changes of this project. Expenditure savings of \$1.0 million were anticipated and the funds was rebudgeted in the 2007-2008 Adopted Capital Budget to fund continuing master planning activities.

<p>2006-2007 ANNUAL REPORT</p>
--

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sewer Service and Use Charge Capital Improvement Fund (Cont'd.)

- Preliminary Engineering – Funding is provided to support preliminary engineering for sanitary sewer related projects, including surveys and evaluations of project impacts on the sanitary sewer system. Savings occurred due to less than anticipated sanitary projects activities.
- Willow-Union Trunk Sewer – This project was awarded in June 2006 and construction began in August 2006. A rebudget of \$100,000 is recommended in this document for continuing construction and close-out costs.
- Program Management – Funding in this project is designated for staff to respond to and meet regional water quality requirements and to implement sanitary sewer system capital improvement projects. Savings occurred due to a portion of the funds not being needed in 2006-2007.

The remaining \$901,000 variance involves a number of projects with less than \$300,000 in unexpended funds, and is largely attributed to delays in project awards.

Additional rebudgets totaling \$290,000 are included in this document for the following projects: 60" Brick Interceptor, Phase VIA & VIB (\$190,000), Interceptor Cleaning (\$75,000) and Hydrogen Peroxide Injection Station (\$25,000).

The 2007-2008 ending fund balance variance (\$17.5 million) reflects the combination of higher than expected revenues and lower than estimated expenditures. As previously described, a portion of the expenditure savings (\$9.1 million) is being rebudgeted to complete projects in 2007-2008.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Services for Redevelopment Capital Projects Fund

The Services for Redevelopment Capital Projects Fund accounts for funds paid directly by the Redevelopment Agency for construction and acquisition of public improvements on behalf of the Agency. To the extent construction project expenditures are not fully expended, the savings are returned to the Redevelopment Agency.

***Services for
Redevelopment Capital
Projects Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 8,874	\$ 9,247	\$ 373	4.2%
<i>Expenditure</i>	20,376	14,024	6,352	31.2%
<i>Fund Balance (est. *)</i>	5,029 *	7,370	2,341	46.6%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

Revenue collections were 4.2% above (\$373,000) the budgeted revenue estimate. The revenue variance is due to collections that were budgeted to occur in 2007-2008 actually being received in 2006-2007.

Expenditures were 31.2% below (\$6.4 million) the budgeted level. Project savings of (\$2.7 million) were rebudgeted to 2007-2008 as part of the Adopted Budget. A portion of these savings related to the Mayfair Community Center (\$2.4 million) were approved by the City Council on September 11, 2007. Additional rebudgets (\$1.3 million) are recommended for rebudget in this document.

The 2006-2007 Ending Fund Balance ended the year \$2.3 million higher than the estimated level primarily due to lower than estimated expenditures as described above.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Storm Drainage Fee Fund

The Storm Drainage Fees are charged to access the City's Storm Drainage System. The use of these funds is restricted to the construction and repair of the storm drainage system.

Storm Drainage Fee Fund

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 502	\$ 269	\$ (233)	(46.4%)
<i>Expenditure</i>	1,563	1,452	111	7.1%
<i>Fund Balance (est.)</i>	245 *	271	26	10.6%

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget

Revenues ended the year below budgeted levels. The revenue variance of \$233,000 reflects lower than budgeted Storm Drainage Fees (\$239,000) off set by higher interest earnings (\$6,000).

Expenditure savings (\$111,000) were due primarily to the Chateau Drive Storm Drain Improvement project (\$67,000) and Albany Kiely Storm Drainage Improvement project (\$22,000). Construction is ongoing and rebudgets for Albany-Kiely Storm Drainage Improvement project (\$22,000) and Chateau Drive Storm Drain Improvement project (\$16,000) are recommended in this document.

The 2006-2007 fund balance is \$26,000 higher than the estimate used in the development of the 2007-2008 Adopted Capital Budget due to lower than anticipated revenues (\$35,000), partially offset by lower than expected expenditures (\$61,000).

<p align="center">2006 - 2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Storm Sewer Capital Fund

The Storm Sewer Capital Fund receives revenue from the Storm Sewer Operating Fund to account for capital expenditures.

***Storm Sewer
Capital Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 1,997	\$ 2,029	\$ 32	1.6%
<i>Expenditure</i>	4,658	3,890	768	16.4%
<i>Fund Balance (est.)</i>	1,011 *	1,529	518	51.2%

** Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget*

The positive revenue variance (\$32,000) is solely due to higher than budgeted interest earnings.

The positive expenditure variance of \$768,000 reflects unexpended project funds. The major project with variances include: Outfall Rehabilitation (\$277,000), Minor Neighborhood Storm Drainage Improvements (\$232,000), Storm Drainage Improvements (\$166,000), and Master Planning (\$76,000). Savings occurred mainly due to the continuation of construction into 2007-2008.

The following projects are recommended for rebudget in this document for 2007-2008: Minor Neighborhood Storm Drainage Improvements (\$232,000) and Storm Drainage Improvements – Special Corridors (\$166,000).

The 2006-2007 ending fund balance ended the year \$518,000 higher than the estimated level. The variance is attributed mainly to higher than estimated expenditure savings. As described above, \$398,000 of the expenditure savings is recommended for rebudget as part of this report.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Underground Utility Fund

The Underground Utility Program implements City General Plan Goals and Policies, which state that the City should encourage the undergrounding of existing overhead utilities. The Fund is used to establish Rule 20B Underground Utility Districts and to administer the Rule 20A Program.

***Underground
Utility Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 1,420	\$ 717	\$ (703)	(49.5%)
<i>Expenditure</i>	2,002	1,685	317	15.8%
<i>Fund Balance (est. *)</i>	3,816 *	3,431	(385)	(10.1%)

* Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget.

The negative revenue variance of \$703,000 is the result of lower than anticipated developer in-lieu fees as commercial/industrial development has been weaker than residential development in recent years. Based on the fact that commercial/industrial projects typically trigger higher “intensity of use” (e.g. traffic) than residential projects and residential projects are usually not located on General Plan streets designated for future under grounding, revenue has been significantly less than anticipated. Staff will continue to assess the impact this situation will have on the project delivery schedule for the Underground Program.

The positive expenditure variance of \$317,000 primarily reflects savings in the Underground Utility Program appropriation due to changes in project delivery schedules due to utility company resource issues.

The 2006-2007 ending fund balance ended the year \$385,000 below the estimated level and reflects the combination of lower than anticipated developer in-lieu fees and lower than budgeted expenditures. Sufficient ending fund balance is available to offset this variance.

<p align="center">2006-2007 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Water Utility Capital Fund

The Water Utility Capital Fund supports the Municipal Water System capital program. Monies in this Fund are expended on the acquisition, construction, and installation of water system capital improvements. This system provides water service to the North San José, Evergreen, Alviso, Edenvale, and Coyote areas and are primarily funded through user charges.

***Water Utility Capital
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 3,974	\$ 3,565	\$ (409)	(10.3%)
<i>Expenditure</i>	5,539	3,912	1,627	29.4%
<i>Fund Balance (est.)</i>	3,775 *	3,830	55	1.5%

** Refers to the 2006-2007 Ending Fund Balance estimate used to develop the 2007-2008 Adopted Budget*

The negative revenue variance (\$409,000) resulted from lower than budgeted Advanced System Design Fees (\$257,000), Service Connection Fees (\$144,000), and Meter Installation Fees (\$120,000), partially offset by higher than budgeted interest earnings (\$111,000). Service Connection Fee, Advanced System Design Fee, and Meter Installation Fee revenues primarily recover the actual cost to install new services.

Expenditure savings (\$1.6 million) occurred primarily due to the continuation of projects into 2007-2008. A portion of these savings (\$1.1 million) was anticipated at the end of 2006-2007 and rebudgeted to 2007-2008. Savings in Forestwood Drive Main Replacement (\$540,000), Security Improvements (\$208,000), and North Coyote Valley Water System (\$170,000) are due to ongoing construction. Savings in Meter Installations (\$221,000), Advance System Design (\$108,000) and Service Connections (\$102,000) are due to lower than expected requests for service from developers. Expenditures in these categories, usually reimbursed by developers, were not needed in 2006-2007. As part of this report, \$300,000 is recommended to be shifted from Forestwood Drive Main Replacement to Infrastructure Improvements as money is needed for an emergency main repair on North First Street and there is sufficient funding left in Forestwood Drive Main Replacement allocation to finish the project.

The positive variance in fund balance (\$55,000) was due to project savings, partially offset by lower than estimated revenues as described above.